A Global Snapshot Of Government Bond Yields

2- & 10-Year Government Bond Yields

Country	2-Year		10-Year	
	Yield	12-Month Change (Basis Points)	Yield	12-Month Change (Basis Points)
Australia	3.28%	261	3.71%	179
Canada	3.93%	286	3.08%	137
China	2.29%	-4	2.84%	3
France	2.66%	333	2.73%	244
Germany	2.59%	319	2.22%	226
Italy	2.99%	307	4.17%	289
Japan	0.01%	11	0.58%	45
Switzerland	1.06%	183	1.25%	126
United Kingdom	3.39%	256	3.52%	233
United States	4.21%	331	3.53%	177

Source: Bloomberg. As of 3:00PM CST on 1/9/23. **Past performance is no guarantee of future results.**

View from the Observation Deck

Global central banks have been forced to tighten monetary policy as they battle inflation, leading to increased yields. Let's dive into a few of the implications of today's chart:

- **The yield curve remains inverted in the U.S.**

Historically, an inverted yield curve has been a fairly accurate indicator of an impending economic recession. It's worth noting, however, that for the very first time with high inflation, the Federal Reserve ("Fed") is operating in an "abundant reserve" system, according to Brian Wesbury, Chief Economist at First Trust Portfolios L.P. We're in uncharted territory. We expect a recession in 2023, but also believe that the Fed's current policy could be distorting the signals from traditional indicators.

- **The end of negative yields?**

After peaking at $18.38 trillion in December 2020, total global negative-yielding debt has plummeted, falling to $0 on January 4, 2023. This is the first time global negative yielding debt has touched $0 in almost 13 years. While yields are rising globally, the 10-year bonds of most countries represented in today's chart continue to reflect negative real yields (yield minus inflation). In fact, the only country in the chart that doesn't have a negative real yield is China.

- **Don't fight the Fed**

As of 12/30/22, the federal funds target rate (upper bound) stood at 4.5%. We'll leave it to the pundits to argue over how high the federal funds rate will ultimately go. We think it's fair to expect more pain for the bond market if the Fed continues to hike rates.

Takeaway: It is healthy to see bond prices and yields normalizing, but most bonds represented in today's chart are still paying a negative real yield (yield minus inflation). We don't believe that we've seen the peak in rates and expect continued rate hikes to further pressure real yields across the global bond spectrum.